MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BAC 3664 – ACCOUNTING THEORY

(All sections / Groups)

16 FEBRUARY 2023
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **4** pages with **4** Questions only not inclusive the cover page.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) The introduction in 2002 of the Sarbanes-Oxley Act in the United States, following the collapses of large corporations such as Enron and WorldCom and failure at the leading accounting firm, Arthur Anderson. Discuss **THREE (3)** effects of this new legislation with relates to the public interest theory of regulation.

(9 marks)

(b) Legitimacy gap will arise when organisation change is slower than the changing expectation of society. Discuss **TWO (2)** ways to reduce the legitimacy gap as stated in the study by Dowling and Pfeffer (1975).

(7 marks)

(c) Stakeholder theory is a theory that provides an explanation for corporate disclosures. It has both ethical (moral) or normative branch and a positive (managerial) branch. Explain **THREE (3)** differences between the two branches of this theory.

(9 marks)

[TOTAL 25 MARKS]

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QUESTION 2

According to Mohd Ali et al. (2020), uncontrolled creative accounting practices may have negative impacts on the established financial presentation disclosed by companies. This study concludes that income smoothing practices has a positive relationship with financial performance measured, while tax avoidance has no influence on financial performance. Uncontrolled creative accounting practices may tarnish the credibility of accounting profession.

Required:

(a) Describe the concept of creative accounting related to financial performance of an organisation.

(5 marks)

(b) Determine **TWO (2)** situations that creative accounting practices may fall under illegal practice.

(10 marks)

(c) Discuss the statement of "Uncontrolled creative accounting may tarnish the credibility of accounting profession".

(10 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Firth (1976) found that when good news was released about accounting earnings, the share prices of the non-accounting firms in the same industry reacted quickly (the same day) by showing a statistically significant interest. Similar results were found with respect to 'bad news' earnings announcement. This phenomenon refers to 'information transfer'.

Required:

(a) Describe the concept of information transfer.

(5 marks)

(b) Discuss **TWO (2)** impacts of earnings announcement, to other firms in the same industry.

(10 marks)

(c) Discuss **TWO (2)** reasons that the earnings forecast can be used as an information transfer to the investor.

(10 marks)

[TOTAL 25 MARKS]

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QUESTION 4

Rising demand for environmental, social and governance (ESG) investing among investors has also encouraged institutional investors to offer ESG-themed funds. Large government-linked organisation in Malaysia such as the Employees Provident Fund (EPF), Kumpulan Wang Persaraan (KWAP), Khazanah and Permodalan Nasional Bhd (PNB) are switching their assets under management into ESG-compliant portfolios. Institutional investors such as pension funds, insurance companies, endowments, mutual funds, and asset managers with large assets under management need good risk management tools to shield their investments from ESG risks and market uncertainties. Stronger investor interest is expected in assets that adopt ESG and sustainability strategies across all sectors, especially in the automotive, industrial and consumer sectors.

Source: The Star (2022)

Required:

(a) Describe the concept of environmental, social and governance (ESG) related to financial reporting in a government-linked organisation.

(5 marks)

(b) Discuss **TWO (2)** benefits of ESG reporting to a government-linked organisation.

(10 marks)

(c) Discuss **TWO (2)** challenges in implementing the ESG reporting to a government-linked organisation.

(10 marks)

[TOTAL 25 MARKS]

End of Paper